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MEMORANDUM

NATIONAL SECURITY COUNCIL

SECRET

INFORMATION
April 11, 1974

MEMORANDUM FOR SECRETARY KISSINGER

HK

FROM: CHARLES A. COOPER

SUBJECT: CIA Assessment of Recent Bilateral Oil Agreements

At your meeting with oil company executives there was considerable discussion of "bilateral deals" and their effect on oil prices. I am skeptical that at the moment this problem is very serious.

The CIA has recently completed a short review (attached) of the bilateral oil deals arranged among major consumers and producers. The CIA study confirms what was becoming more obvious:

-- Fewer bilateral oil deals are being sought by major consuming nations. Japan, Germany, the UK, and even France do not seem, any longer, to be in the market for bilateral oil.

-- Some of the previous "agreements" have been cancelled, in certain cases negotiations have been suspended, and only in two or three cases have deals been finalized. Even in these cases, only 300,000 b/d is involved.

-- Some LDCs facing large oil debts (e.g., India) are still seeking bilateral agreements, but their efforts have met with limited success. In fact, not many of the OPEC producers appear interested in bilateral arrangements, Iran and Libya being the salient exceptions.

The reasons for increasing consumer reluctance to enter bilaterals is clear: now that the initial shocks of supply cutbacks and high spot prices have been absorbed, consumers have begun to take harder looks at the costs of bilateral deals and have apparently realized that bilateral oil may be no more secure from disruption than oil derived from major oil firms.

In sum, the prospect of a dizzying rush towards bilateral oil deals has faded, and the international oil market is settling down into many of its older patterns.

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BILATERAL OIL DEALS FIZZLE

With few exceptions, the major oil consumers' negotiations with the producers have stalled or fallen apart. The consumer governments, having scored their political points, now realize that the scramble for bilateral arrangements will tend to keep oil prices high without really guaranteeing that supplies will always be available. They also have found the producing countries' other demands excessive. Among the producers, Saudi Arabia no longer is interested in bilateral oil-for-goods deals, preferring instead to make cash sales. Indonesia, Nigeria, and some of the smaller OPEC members have never been interested in bilateral arrangments. Iran and Libya continue to pursue negotiations, but are having difficulty coming to terms with the consumers. Even most of the supposedly firm barter arrangements reportedly do not include agreed prices.

The Japanese, the first to take to the bilateral circuit in a big way, have been the first to back off. Tokyo's long-pending economic and technical cooperation agreement with Saudi Arabia, which was scheduled for signature in mid-February, is still up in the air. Follow-up discussions reportedly now are slated for late April, but Tokyo wants to avoid any related talks on a long-term oil purchase agreement that would commit Japan to high prices.

Japanese negotiations to build a 500,000 b/d oil refinery have stalled over Tehran's insistence on an associated petrochemical plant. Japan wants to buy the naphtha produced at the refinery, but the Iranians want it for the petrochemical plant. [redacted]

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Despite all the ballyhoo accompanying Paris' many offers to the oil producers, very little has come from them. It is not even clear that talks still are under way for the various industrial projects proposed for Kuwait, and negotiations with Abu Dhabi for a petrochemical plant are at a very early stage. The French deal with Iran will entail considerable negotiation simply because of its size and complexity. It calls for France to build several nuclear powerplants, a petrochemical complex, a steel plant, and several other industrial projects as well as joint construction of a gas liquefaction plant and a fleet of LNG tankers. France's most recent bilateral oil deal – with Libya – also is complex, and negotiations on details are just getting under way. Even if the agreement can be firmed up, Paris cannot be sure that Qadhafi will honor any commitment. French hopes of expanding their deal with the Saudis to 800,000 b/d for a 20-year period have almost no chance for success in view of Saudi reluctance to enter additional bilateral arrangements. France will be paying through the nose for its 200,000 b/d, three-year agreement with the Saudis, even though Riyadh recently cut the price by almost a dollar – to 93% of the posted price.

Although they initially were reluctant to accept Tehran's conditions, the West Germans expect to sign a final agreement late this month for a refinery-petrochemical plant project similar to the one the Japanese have all but rejected. The Germans are to get two-thirds of the refinery's output, and the remainder will be used as feedstock for petrochemical plants in both West Germany and Iran. Bonn's triangular natural gas deal with Tehran and Moscow, however, is given little chance for success in the near future because of the complexity of the issues to be resolved. The United Kingdom, which signed an oil-for-goods agreement with Iran earlier this year, seems to have dropped out of the bilateral oil race. The Labor government is not actively pursuing bilateral deals and apparently does not intend to.

To date, only about 300,000 b/d of oil have been firmly committed under bilateral arrangements between the major consumers and producers. All the consumer governments are taking a harder look at the costs involved in bilateral deals and are not likely to support oil development projects in the producer countries unless they promise supplies more cheaply than those offered by the majors or the consumers' own oil companies. A listing of the major bilateral proposals follows. [redacted] 25X1

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Recent Bilateral Oil Proposals

Consumer	Producer	Details
Japan	Iran	Agreement in principle in January to provide a $1 billion loan for a 500,000 b/d refinery in Iran in return for bulk of output. Project has stalled, however, over Tokyo's reluctance to accede to Tehran's demands for an associated $1 billion petrochemical plant.
	Iraq	Agreement initialed in January providing $1 billion loan for an Iraqi refinery, LPG plant, petrochemical plant, and other industrial projects in return for 180,000-200,000 b/d of crude and products for 10 years, natural gas, and other products. Negotiations unsuccessful as of 1 April.
	Saudi Arabia	Economic cooperation agreement still pending. At current prices Tokyo is not interested in signing long-term oil supply agreement.
	Algeria	Japan negotiating credits since January for industrial projects in return for direct deal crude and LNG. Status unknown.
West Germany	Iran	The West German government, negotiating on behalf of a German oil consortium, has agreed in principle to construct a 500,000 b/d refinery and a petrochemical plant in Iran at a combined cost of about $2 billion. Final agreement to be signed in late April.

No Objection to Declassification in Part 2010/03/25 : LOC-HAK-45-5-12-3

Recent Bilateral Oil Proposals
(Continued)

Consumer	Producer	Details
	Iran	Negotiations in progress since October 1973 for delivery of 10 billion cubic meters of natural gas annually for unspecified period. The deal involves Iranian deliveries to the USSR in exchange for Soviet deliveries to Germany.
	Libya	Agreement in principle to provide capital goods and technical assistance in exchange for oil. Status of negotiations unknown.
United Kingdom	Iran	Deal confirmed in January. The United Kingdom is to get 100,000 b/d of crude in the coming year in return for textile fibers, steel, paper, petrochemicals, and other industrial products.
	Saudi Arabia	Negotiations suspended in February for 200,000 b/d for an unspecified period. Payment was to be through commitments for development contracts.
France	Saudi Arabia	Agreement signed in January for about 200,000 b/d of oil for 3 years. France is to build a 50,000 b/d refinery with Saudi ownership.
	Abu Dhabi	The French government is to supply 35 Mirage aircraft for crude oil to cover the value of the transactions. The agreement reportedly was concluded in January.
	Abu Dhabi	The French, wishing to buy participation crude, have offered to build petrochemical plant in return. Status unknown.
	Kuwait	France offered arms and large industrial investment in exchange for long-term oil deliveries. The size of the deal is subject to future negotiations and Kuwait approval in principle. Status unknown.

No Objection to Declassification in Part 2010/03/25 : LOC-HAK-45-5-12-3

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Recent Bilateral Oil Proposals
(Continued)

Consumer	Producer	Details
	Iran	Agreement in principle signed in February for $5 billion in industrial projects. In return, France is to get natural gas and oil exploration rights. Negotiations under way.
	Libya	Agreement in principle signed in February to exchange oil for industrial equipment, including nuclear powerplants, and technical assistance. Negotiations under way. ■

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